Report

of the

Examination of

SECURA Insurance, A Mutual Company

Appleton, Wisconsin

As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, *Governor*
Jorge Gomez, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

September 2, 2004

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Kevin M. McCarty
Chairman, Financial Condition (E)
Committee, NAIC
Director, Office of Insurance Regulation
State of Florida
200 East Gaines Street
Tallahassee, Florida 32399-0327

Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

SECURA INSURANCE, A MUTUAL COMPANY
Appleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of SECURA Insurance, A Mutual Company (the company or SECURA) was conducted in late 1999 and early 2000 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1900 as The Farmers Home Mutual Hail, Tornado and Cyclone Insurance Company, a town mutual insurance company. In 1932 the company converted its licensure authorization to that of a Wisconsin domiciled mutual insurer, and changed its name to Home Mutual Insurance Company. In 1986 the company changed its name to the current one.

The company is the ultimate parent company in a holding company system. There was a change to the holding company system for the period under examination. Coordinated Insurance Services, LLC (CIS), was added to the group; CIS is a limited liability company with the company as its sole owner. CIS was formed to perform workers compensation payroll audits for the company, and possibly for other companies. Additional description of the holding company structure is detailed in the section of this report captioned "Affiliated Companies."

The company has a reinsurance pooling relationship with SECURA Supreme Insurance Company (Supreme). The pooling agreement was established July 1, 1996, was amended October 1, 1999, and again on January 1, 2002. Under the pooling agreement the company assumes 100% of the insurance and reinsurance issued by Supreme, and SECURA cedes and retrocedes to Supreme 10% of the net premium for the pool and net loss and loss adjustment expense in the pooled business. Further discussion of the company's affiliated reinsurance pooling activity is provided in the section of this report captioned "Reinsurance."

In 2003, the company wrote direct premium in the following states:

Michigan	$ 67,457,560	34.9%
Wisconsin	43,629,949	22.5
Minnesota	24,326,298	12.6
Missouri	16,238,804	8.4
Illinois	13,522,268	7.0
All others	28,370,571	14.6
Total	$193,545,450	100.0%

"All others" includes Indiana, Iowa, Kansas and Kentucky. In addition, the company is licensed in the following states but had no premium in them: North Dakota, Ohio, Oklahoma, Oregon, and South Dakota.

The major products marketed by the company include commercial lines, personal lines including auto and homeowners, and farmowners insurance. The company markets insurance to individuals and business enterprises classified by the company as preferred risks and standard risks, and does not issue policies to substandard risks. In 1999, the SECURA group developed and began marketing a personal lines package policy providing homeowners, automobile and umbrella liability insurance coverages under one policy. The package product is marketed solely by Supreme, which commenced writing the package policy in early 2000. Supreme’s personal lines package insurance is marketed to individuals who are classified by the company as preferred risks. The major products are marketed through approximately 4,500 independent agents. Included in the total agents are 1,857 agents licensed in Wisconsin.

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the Financial Data section of this report.

(Amounts in thousands)

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Fire	$ 1,110	$ 82	$ 190	$ 1,002
Allied lines	614	92	102	604
Farmowners multiple peril	17,742		2,744	14,998
Homeowners multiple peril	24,760	13,821	5,370	33,211
Commercial multiple peril	36,511	11,564	6,693	41,382
Inland marine	794	184	260	718
Earthquake	393	78	72	399
Worker's compensation	34,210	19,121	5,832	47,499
Other liability - occurrence	6,188	327	5,512	1,003
Other liability - claims made	143	37	66	114
Products liability - occurrence	3,254	895	452	3,697
Private passenger auto liability	21,544	14,408	5,430	30,522
Commercial auto liability	16,472	5,337	4,241	17,568
Auto physical damage	28,793	15,655	4,878	39,570
Fidelity	17	7	3	21
Burglary and theft	3	1	1	3
Boiler and machinery	998	81	844	235
Total All Lines	$193,546	$81,690	$42,690	$232,546

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board meeting held on the date of the company’s annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Board members currently receive $12,000 annually (based on 5 meetings, paid in 4 equal installments) for serving on the board. The chairpersons of the Audit, Executive and Investment Committees are paid an additional annual retainer of $1,000, payable in equal quarterly installments. With respect to committee meetings, non-employee directors receive $500 per meeting for each committee meeting held on a date other than a day on which the board is meeting. Directors may be reimbursed up to $500 per meeting for travel-related expenses to attend a board or committee meeting. The fees are paid by the company. The fees are then allocated 90% to the company and 10% to Supreme per the Professional Services Agreement.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
John A. Bykowski Appleton, Wisconsin	President, CEO and Chairman, SECURA Insurance, SECURA Supreme and SECURA Holdings	2006
Robert D. Bauman Appleton, Wisconsin	Senior VP, General Counsel and Corporate Secretary of SECURA Insurance, SECURA Supreme, and SECURA Holdings	2005
James R. Hayes Oshkosh, Wisconsin	President, J. Hayes Associates, LLC	2005
Wayne R. Micksch Green Bay, Wisconsin	President, Quality Insulators, Inc.	2007
Anne E. Ross Madison, Wisconsin	Attorney, Foley and Lardner	2007
M. Elinor Smith Neenah, Wisconsin	VP Development, QPS Companies, Inc.	2005
Jerome J. Smith Madison, Wisconsin	President and CEO, First Business Financial Services, Inc.	2006
David J. Thomas Sister Bay, Wisconsin	Owner and President, Thomas Pfeifer Insurance Agency, Inc.	2006
Ronald A. Weyers Gillett, Wisconsin	The Weyers Group	2007

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2003 Compensation
John A. Bykowski	President, CEO, Chairman	$549,982
Robert D. Baumann	Secretary	237,591
Kathryn J. Sieman	Treasurer	206,230

A portion of the above salaries are allocated to Supreme as a part of the reinsurance pooling agreement and professional services agreement.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
David J. Thomas, Chair
John A. Bykowski
Jerome J. Smith
Ronald A. Weyers

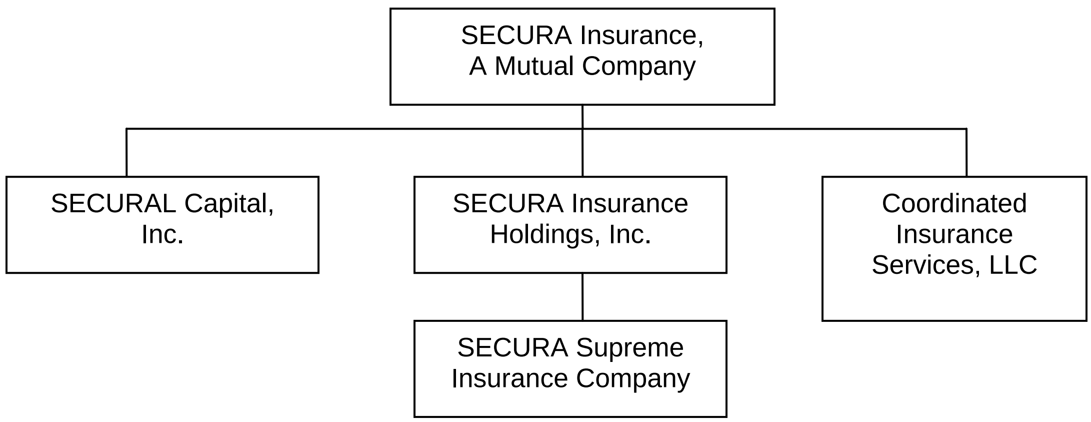
Investment Committee
Jerome J. Smith, Chair
Anne E. Ross
John A. Bykowski
Robert D. Bauman

Audit Committee
James R. Hayes, Chair
M. Elinor Smith
Wayne R. Micksch

IV. AFFILIATED COMPANIES

SECURA is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the affiliates follows the organizational chart. SECURA is the ultimate parent of a holding company system.

Organizational Chart
As of December 31, 2003



SECURA Insurance Holdings, Inc

SECURA Insurance Holdings, Inc. (Holdings), is a Wisconsin-domiciled Chapter 180 corporation that was organized January 3, 1994. Wholly owned by SECURA, Holdings serves as the intermediate holding company parent of SECURA Supreme Insurance Company (Supreme). As of December 31, 2003, Holdings reported assets of $16,045,136, $0 in liabilities and net stockholder equity of $16,045,136 in its unaudited financial statements. Since its formation, Holdings has not conducted any business operations of its own.

SECURA Supreme Insurance Company

SECURA Supreme Insurance Company (Supreme) is a Wisconsin-domiciled property and casualty insurer that was incorporated on November 30, 1995, and commenced business on December 29, 1995. Supreme is licensed in Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri and Wisconsin. Supreme writes personal and commercial lines insurance coverages. Supreme was examined simultaneously with SECURA, and is the subject of a separate examination report.

As of December 31, 2003, Supreme's audited statutory financial statement reported admitted assets of $45,350,082, liabilities of $29,316,152 and surplus of $16,033,929. Operations for 2003 produced a profit of $2,560,546.

SECURA and Supreme are parties to a professional services agreement, reinsurance pooling agreement and a tax-sharing agreement, discussed in the Agreements With Affiliates section of this report.

SECURAL Capital, Inc.

SECURAL Capital, Inc. (Capital), is a Wisconsin-domiciled Chapter 180 corporation that was incorporated May 29, 1987. Capital is an inactive shell. As of December 31, 2003, Capital reported non-audited assets of $83,060, liabilities of $2,334 and net stockholder equity of $80,726. Net income from operations was $7,684. Revenues are from short-term investments. See Subsequent Events section for more information about the plans for this affiliate.

Coordinated Insurance Services, LLC

Coordinated Insurance Services, LLC (CIS), is a Wisconsin-domiciled Chapter 183 limited liability corporation that was organized on April 24, 2000. CIS was formed to provide insurance-related support services to the SECURA group and other insurance companies. The main initial objective of CIS was to manage the excess premium audit capacity of SECURA in order to control expenses and to provide quality premium audit services to client companies at a high level of customer service. CIS conducted actual operations for two years. CIS is now an inactive shell. As of December 31, 2003, CIS reported non-audited assets of $20,000, liabilities of $0 and net stockholders equity of $20,000. Operations in 2003 reported $0 in net income. See Subsequent Events section for more information about the plans for this affiliate

Agreements with Affiliates

Pooling Agreement

This agreement is described in the Reinsurance Section of this report.

Professional Services Agreement

The company has a Professional Services Agreement with SECURA Supreme Insurance Company. The agreement covers expenses not covered under the pooling agreement with Supreme. These services include actuary, accounting, financial reporting, legal services, investment management, financial audit and such other professional services as may be requested from time to time by Supreme. Services are to be billed on an actual cost basis. Payment is to be made within 30 days of receiving an appropriate accounting statement. The original term of the agreement was July 1, 1996, to December 31, 2000, and renews for five-year terms unless terminated by either party. The agreement may be terminated at anytime by either party giving 90 days' written notice.

Tax-Sharing Agreement

This agreement includes the company, SECURA Supreme Insurance Company and all other subsidiaries for which the company owns at least 80% of issued and outstanding stock. The agreement calls for each company to compute its tax as if filing a separate return except that the single $40,000 exemption contained in IRC section 55 shall be allocated to the company. Payments are due on or before the fifteenth day of the third month following the close of the company's tax year.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of significant reinsurance contracts in force at the time of the examination follows. The contracts contained proper insolvency provisions.

SECURA’s reinsurance program consists of cessions to various nonaffiliated insurers for excess of loss, umbrella and catastrophe reinsurance coverages; immaterial assumption of nonaffiliated pool association risks and affiliated assumption and retrocession of pooled risks under a reinsurance pooling relationship with Supreme. They also have a large amount of known ceded case reserves in the mandatory Michigan Catastrophic Claims Association.

Nonaffiliated reinsurance assumptions are mostly in the National Workers Compensation Reinsurance Pool. The company assumed $1,787,353 in 2003 or 0.8% of net premiums written in 2003. Due to the immateriality of the nonaffiliated assumed business, further summarization of related pool associations is omitted from this report.

Affiliated Pooled Reinsurance

The company’s affiliated reinsurance is transacted under a reinsurance pooling relationship with Supreme. An intercompany pooling agreement was established July 1, 1996, amended October 1, 1999, and amended again effective January 1, 2002; each amendment was not disapproved by this office. Under the pooling agreement the company assumes 100% of the insurance and reinsurance issued by Supreme, then SECURA cedes and retrocedes to Supreme 10% of the premiums, commissions, and liability for net loss and loss adjustment expense in the pooled business.

Under the pooling agreement, Supreme assigns its rights to receive all gross written premiums to SECURA, and SECURA pays to Supreme 10% of the net premium for the pool. Net premium for the pool equals the collected gross net written premium, unearned premium reserves, plus premiums receivable, for the pooled business minus all cost and expenses of operations for the pooled business, including the administrative fee payable to SECURA, commissions, contingent commissions, cost of reinsurance, policyholder dividends and related liabilities.

Pursuant to the reinsurance pooling agreement, SECURA performs all administration of the pooled business, including product design and marketing, billing and collection, underwriting and claims adjudication, and regulatory filing and compliance.

For its services under the pool agreement, SECURA is entitled to retain, as an administration fee, 12.5% of the pooled collected gross net written premium, approximating Supreme's portion of SECURA's actual cost of services. The reinsurance contracts cover the business of SECURA and Supreme as an aggregate.

Nonaffiliated Ceding Contracts

1.	Type:	Property Per Risk Excess of Loss	
	Reinsurer:	Motors Insurance Corporation	55%
		Platinum Underwriters Reinsurance	25%
		Hanover Ruckversicherungs Aktiegesellschaft	20%
	Scope:	Property (except automobile physical damage)	
	Retention:	$1,000,000 each risk from one loss occurrence	
	Coverage:	$4,000,000 excess $1,000,000 retention with a per occurrence cap of $8,000,000 ultimate net loss all losses from one loss occurrence. If recovery on a risk from one loss occurrence under this contract and recovery from same loss occurrence under excess casualty reinsurance effective January 1, 2004, reinsurer also liable for 50% of retention this contract.	
	Premium:	2.80% of company's net property premiums with a minimum premium of $1,952,000	
	Effective date:	January 1, 2004	
	Termination:	January 1, 2005, applying to losses occurring during term of contract. At expiration company option for cutoff or runoff until earlier of expiration or next renewal of policies in force at expiration.	

2. Type: Property Catastrophe Excess of Loss

Reinsurer:

Reinsurer	**Participation** 1st X/S	2nd X/S	3rd X/S	4th X/S
American Agricultural Insurance	0.00%	4.00%	4.00%	2.00%
Arch Reinsurance	5.00	5.00	5.00	5.00
AXA Re	5.00	5.00	5.00	5.00
Employers Mutual Casualty	1.50	1.50	1.50	1.00
GE Reinsurance Corp	25.00	7.50	7.50	6.50
Hanover Re (Bermuda) Ltd.	0.00	5.00	2.50	9.00
Mapfre Reinsurance	0.00	2.00	1.50	3.75
Pxre Reins Ltd. (Bermuda)	8.00	0.00	8.00	8.00
Platinum Underwriters Re	10.00	10.00	10.00	10.00
QBE Reinsurance	0.00	9.00	0.00	2.50
Sirus International (Publ)	0.00	0.00	0.00	1.50
Sirus International (Publ)(PRAM)	0.00	0.00	1.50	1.50
State Automobile Mutual	0.00	3.00	4.00	2.00
Transatlantic Reinsurance	0.00	11.00	8.25	7.50
XL Re Limited (Bermuda)	10.00	0.00	8.75	8.50
Lloyd's Markets*	12.50	23.50	22.50	20.00
Across the Board Facility*	18.00	9.50	6.00	2.25
Master Lineslip Facility*	5.00	4.00	4.00	4.00
	100.0%	100.0%	100.0%	100.0%

*Various reinsurers

Scope: Property business, including but not limited to, earthquake, fire, allied lines, inland marine, automobile physical damage (excluding collision) and property sections of homeowners, farmowners, businessowners and commercial packages policies in force at inception of contract, or written or renewed during term of this contract.

Retention: The company shall retain an amount equal to 2.5% participation of the Ultimate Net Loss each loss occurrence in each of the four layers of the contact. The layers of ultimate net loss each loss occurrence are the following:

First Excess	excess of \$ 5,000,000 up to \$12,000,000
Second Excess	excess of \$12,000,000 up to \$20,000,000
Third Excess	excess of \$20,000,000 up to \$30,000,000
Fourth Excess	excess of \$30,000,000 up to \$50,000,000

Coverage: 97.5% of the ultimate net loss each loss occurrence in each of the four layers of the contract. Reinsurers have the following limits of liability for all loss occurrences for the respective layers of the contract:

	Per Occurrence	**For All Occurrences**
First Layer	97.5% of \$ 7,000,000	97.5% of \$14,000,000
Second Layer	97.5% of \$ 8,000,000	97.5% of \$16,000,000
Third Layer	97.5% of \$10,000,000	97.5% of \$20,000,000
Fourth Layer	97.5% of \$20,000,000	97.5% of \$40,000,000

Reinsurer shall not be liable unless two or more risks are involved in the same loss occurrence.

	Premium:	Premium rates as a percentage of net subject premiums earned by the company

1st Layer	2nd Layer	3rd Layer	4th Layer
1.771%	0.476%	0.319%	0.394%

Annual minimum and deposit premiums:

	Minimum Premium	Deposit Premium
1st Layer	$1,474,200	$1,842,750
2nd Layer	396,240	495,300
3rd Layer	265,200	331,500
4th Layer	327,600	409,500

	Effective date:	January 1, 2004
	Termination:	January 1, 2005
3.	Type:	Property Facultative Excess of Loss
	Reinsurer:	American Re-Insurance Company
	Scope:	Commercial lines policies. Applies only to a risk entered and bound on the Auto Fac system within 30 days company is bound on risk. Territory is only property in Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri and Wisconsin, except Inland Marine where policies located. Company liable for all taxes on premiums reported to reinsurer.
	Retention:	Minimum net and treaty retention of $5,000,000 each risk, each occurrence.
	Coverage:	$15,000,000 excess $5,000,000 each risk, each occurrence $ 7,500,000 excess $5,000,000 each risk, each occurrence for risks located in Minneapolis, MN, St. Paul, MN, Chicago, IL, Detroit, MI, Kansas City, KS, Kansas City, MO, and St. Louis, MO.
	Premium:	Company shall pay reinsurer that portion of company's premium applicable to policies reinsured which corresponds to reinsurer's participation in such policies.
	Effective date:	November 1, 2002
	Termination:	Until cancelled by either party at any time with at least 90 days' written notice.
4.	Type:	Umbrella Quota Share
	Reinsurer:	American Re-Insurance Company
	Scope:	Commercial, personal, and farm umbrella liability
	Retention:	25% quota share of company's net loss for first $1,000,000 for each loss occurrence. Company shall retain or reinsure 25% of

its Net Loss and Loss Adjustment Expenses, and 100% over $10,000,000.

Coverage:	75% quota share participation in company's net loss for first $1,000,000 for each loss occurrence plus 100% quota share for amounts in excess of $1,000,000 up to $10,000,000.
Premium:	75% of the written premium charged by the company for each umbrella liability policy covered by this agreement up to a limit of $1,000,000. 100% of premium for umbrella liability policies from $1,000,000 to $10,000,000.
Commissions:	30% Ceding commission. Contingent commission of 35% on the net profits accruing to the reinsurer for the first $1,000,000 of insurance limits.
Effective date:	January 1, 2004
Termination:	At any time by either party by providing 90 days' notice in writing.

5. Type: Clash Excess Casualty

Reinsurer:

Reinsurer	**1st Xs**	**2nd Xs**	**3rd Xs**
Arch Reinsurance	00.00%	25.00%	37.50%
Employers Mutual Casualty	2.50	2.50	2.50
GE Reinsurance Corp	36.25	10.00	0.00
Partner Reinsurance of U.S.	25.00	0.00	0.00
Platinum Underwriters Reins.	0.00	22.50	22.50
Hanover Ruckversichcrungs	36.25	40.00	37.50
Total	100.00%	100.00%	100.00%

Scope: Casualty, including but not limited to third-party bodily injury, personal injury or death liability, and third-party damage liability, including any medical payments, automobile coverage, for uninsured or under insured motorists, benefits prescribed under any state automobile no fault laws and worker's compensation benefits for the following coverages:

1. Mobile homeowners section II only
2. Farmowners section II only
3. Homeowners section II only
4. Commercial package policy section II only
5. Buisinessowners section II only
6. Automobile liability
7. General liability
8. Worker's compensation (including employer's liability)

Retention:

Layer	**Retention**
1st Layer	$ 1,000,000 per loss occurrence
2nd Layer	6,000,000 per loss occurrence
3rd Layer	12,000,000 per loss occurrence

Coverage:

Layer	**Per Occurrence**	**All Occurrences**
1st Layer	$5,000,000	$20,000,000
2nd Layer	6,000,000	12,000,000
3rd Layer	8,000,000	16,000,000

The maximum loss any one person for ultimate net loss for any worker's compensation loss is limited to $6,000,000.

Premium: Premium rates as percentage of net premiums earned:

Layer 1	**Layer 2**	**Layer 3**
1.338%	0.225%	0.169%

Annual and minimum premiums:

	Minimum Premium	**Deposit Premium**
Layer 1	$1,424,000	$1,780,000
Layer 2	240,000	300,000
Layer 3	180,000	225,000

Effective date: January 1, 2004

Termination: January 1, 2005

6. Type: All Lines Whole Account Aggregate Excess of Loss

Reinsurer:

Hannover Reinsurance (Ireland) Ltd.	80%
E&S Reinsurance (Ireland) Ltd.	20%

Scope: Aggregate net losses incurred by the company during the term of this contract on an ultimate accident year (January 1, 2004, through December 31, 2004) basis for any and all business written or assumed by the company.

Retention: Excess of 66% of gross net earned premium income or $169,000,000 of aggregate net losses, whichever is greater

Coverage: Aggregate net losses paid for business covered, subject to maximum aggregate limit equal to 6.9% of the gross net earned premium income or $17,500,000, whichever is lesser, which is in excess of retention, whichever is greater, subject to a sub-limit of $25,000,000 for all subject losses and expenses arising from losses assigned a catastrophe number by the Policy Claims Service or from any claims arising out of mold, contractors' completed operations property damage or terrorism, or assumed from a mandatory state pool.

Premium: Flat deposit premium of $5,000,000, of which $700,000 shall be paid the reinsurer in two equal semi-annual installments of $350,000 each on January 1, 2004, and July 1, 2004, as expense charge, and the balance shall be credited to the funds withheld account as of January 1, 2004. The expense charge shall be fully earned as received except for cancellation due to adverse law or regulatory. Company shall pay via credit to the funds withheld account an additional premium equal to 50% ceded incurred aggregate net losses in excess of $7,500,000.

Maintenance Fee: On each April 1, 2006, April 1, 2007, April 1, 2008, April 1, 2009, and April 1, 2010, the company shall pay 1.0% of the funds withheld account balance to the reinsurer.

Such maintenance fee shall not be less than zero and shall be payable in addition to the premium, as well as additional premium.

At the time of commutation, the company is to receive the amount in the funds withheld account as a return premium.

Effective date:	January 1, 2004
Termination:	December 31, 2004

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

SECURA Insurance, A Mutual Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$222,776,651	$ 0	$222,776,651
Stocks:			
Common stocks	35,539,618	80,727	35,458,891
Mortgage loans on real estate:			
First liens	592,685	0	592,685
Real estate:			
Occupied by the company	6,296,720		6,296,720
Properties held for the production of income	448,589		448,589
Cash	9,905,761		9,905,761
Short-term investments	18,342,184		18,342,184
Other invested assets	1,264,480	20,000	1,244,480
Receivable for securities	825,000		825,000
Investment income due and accrued	2,674,486		2,674,486
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	8,185,226	935,591	7,249,635
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	57,093,819		57,093,819
Reinsurance:			
Amounts recoverable from reinsurers	2,153,252		2,153,252
Current federal and foreign income tax recoverable and interest thereon	841,250		841,250
Net deferred tax asset	12,224,997	2,485,122	9,739,875
Electronic data processing equipment and software	1,002,810		1,002,810
Furniture and equipment, including health care delivery assets	762,634	762,634	0
Receivable from parent, subsidiaries, and affiliates	456,573		456,573
Write-ins for nonadmitted assets:			
Prepaid Expenses	3,742,270	3,742,270	0
Other Receivables	347,577	347,577	0
Write-ins for other than invested assets:			
COLI	437,529		437,529
Equities in Pools & Associations	135,603		135,603
Unused Contribution Certificates	18,540		18,540
Total Assets	$386,068,254	$8,373,921	$377,694,333

SECURA Insurance, A Mutual Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Losses		$ 90,452,158
Loss adjustment expenses		26,841,175
Commissions payable, contingent commissions, and other similar charges		9,525,253
Other expenses (excluding taxes, licenses, and fees)		8,689,450
Taxes, licenses, and fees (excluding federal and foreign income taxes)		413,081
Unearned premiums		109,237,446
Advance premium		800,101
Dividends declared and unpaid:		
Policyholders		1,098,660
Ceded reinsurance premiums payable (net of ceding commissions)		1,265,317
Amounts withheld or retained by company for account of others		284,134
Remittances and items not allocated		792,837
Provision for reinsurance		25,748
Write-ins for liabilities:		
Reserve for Escheats		250,342
Total Liabilities		249,675,702
Write-ins for special surplus funds:		
Guaranty Fund	$ 1,000,000	
Unassigned funds (surplus)	127,018,631	
Surplus as Regards Policyholders		128,018,631
Total Liabilities and Surplus		$377,694,333

SECURA Insurance, A Mutual Company
Summary of Operations
For the Year 2003

Underwriting Income		
Premiums earned		$213,981,649
Deductions:		
Losses incurred	$98,011,428	
Loss expenses incurred	21,458,829	
Other underwriting expenses incurred	74,220,417	
Total underwriting deductions		193,690,674
Net underwriting gain or (loss)		20,290,975
Investment Income		
Net investment income earned	10,962,048	
Net realized capital gains or (losses)	(2,599,546)	
Net investment gain or (loss)		8,362,502
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(444,475)	
Finance and service charges not included in premiums	551,296	
Write-ins for miscellaneous income:		
Other Income	54,979	
Total other income		161,800
Net income before dividends to policyholders and before federal and foreign income taxes		28,815,277
Dividends to policyholders		2,519,440
Net income after dividends to policyholders but before federal and foreign income taxes		26,295,837
Federal and foreign income taxes incurred		10,536,732
Net Income		$ 15,759,105

SECURA Insurance, A Mutual Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance			$215,478,331
Net investment income			12,235,551
Miscellaneous income			161,800
Total			227,875,682
Benefit and loss related payments		$90,340,617	
Commissions, expenses paid, and aggregate write-ins for deductions		89,093,419	
Dividends paid to policyholders		2,445,900	
Federal and foreign income taxes paid (recovered)		7,825,273	
Total deductions			189,705,209
Net cash from operations			38,170,473
Proceeds from investments sold, matured, or repaid:			
Bonds	$45,335,825		
Stocks	3,014,135		
Mortgage loans	254,350		
Other invested assets	338,510		
Net gains or (losses) on cash and short-term investments	(342)		
Total investment proceeds		48,942,478	
Cost of investments acquired (long-term only):			
Bonds	60,031,372		
Stocks	3,381,329		
Real estate	427,884		
Miscellaneous applications	7,898,292		
Total investments acquired		71,738,877	
Net cash from investments			(22,796,399)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(2,060,079)	
Net cash from financing and miscellaneous sources			(2,060,079)
Reconciliation			
Net change in cash and short-term investments			13,313,995
Cash and short-term investments, December 31, 2002			14,933,942
Cash and short-term investments, December 31, 2003			$ 28,247,937

SECURA Insurance, A Mutual Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets		$377,694,333
Less liabilities		249,675,702
Adjusted surplus		128,018,631
Annual premium:		
Lines other than accident and health	$230,026,581	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		46,005,316
Compulsory surplus excess (or deficit)		$ 82,013,315
Adjusted surplus (from above)		$128,018,631
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		61,647,123
Security surplus excess (or deficit)		$ 66,371,508

SECURA Insurance, A Mutual Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	**2002**	**2001**	**2000**	**1999**
Surplus, beginning of year	$105,090,584	$99,463,008	$87,992,372	$97,636,715	$92,205,668
Net income	15,759,105	6,707,045	(407,231)	3,725,321	5,850,384
Net unrealized capital gains or (losses)	8,377,590	1,515,008	1,941,286	(2,887,533)	(1,884,516)
Change in net deferred income tax	3,803,298	1,915,309	939,623		
Change in non-admitted assets	(5,489,364)	(1,050,606)	1,163,179	(555,976)	379,848
Change in provision for reinsurance	(12,748)	129,713	(142,713)		
Change in surplus notes				(10,000,000)	
Cumulative effect of changes in accounting principles			7,979,023		
Write-ins for gains and (losses) in surplus:					
Prior Period Adjustment	490,165	(1,274,655)			
Minimum Pension Liability		(2,314,238)			
Other			(2,531)	(7,098)	
CCG Note Receivable				509,443	
Schedule P Penalty				(459,900)	
MI Prop Res Reduction				31,400	
Excess Statutory Reserves over State					1,359,000
Extraordinary taxes in prior years					(273,669)
Surplus, end of year	$128,018,630	$105,090,584	$99,463,008	$87,992,372	$97,636,715

SECURA Insurance, A Mutual Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2003**	**2002**	**2001**	**2000**	**1999**
#1	Gross Premium to Surplus	215.0%	222.0%	208.0%	227.0%	213.0%
#2	Net Premium to Surplus	182.0	192.0	162.0	161.0	146.0
#3	Change in Net Writings	16.0	25.0	14.0	0.0	-5.0
#4	Surplus Aid to Surplus	0.0	0.0	1.0	4.0	4.0
#5	Two-Year Overall Operating Ratio	86.0	94.0	97.0	96.0	100.0*
#6	Investment Yield	4.0*	4.7	5.6	6.1	5.1
#7	Change in Surplus	22.0	10.0	16.0	-9.0	4.0
#8	Liabilities to Liquid Assets	70.0	74.0	77.0	70.0	67.0
#9	Agents' Balances to Surplus	6.0	6.0	2.0	2.0	3.0
#10	One-Year Reserve Development to Surplus	0.0	3.0	-1.0	-4.0	2.0
#11	Two-Year Reserve Development to Surplus	5.0	3.0	-4.0	1.0	6.0
#12	Estimated Current Reserve Deficiency to Surplus	17.0	24.0	-7.0	-18.0	2.0

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 1999 were due to unusually severe storms resulting in numerous claims in 1998. Ratio No. 6 measures the company's investment yield. The company has 53% of its investments in government bonds and special revenue bonds which resulted in lower yields in addition to the generally lower interest rate environment in recent years.

Growth of SECURA Insurance, A Mutual Company
(in thousands)

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2003	$377,694	$249,676	$128,019	$15,759
2002	328,530	223,440	105,091	6,707
2001	296,293	196,830	99,463	(407)
2000	258,985	170,992	87,992	3,725
1999	257,233	159,596	97,637	5,850
1998	262,271	170,065	92,206	(2,158)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	$275,237	$232,546	$213,982	55.8%	31.8%	87.6%
2002	233,762	201,281	182,477	63.2	30.8	94.0
2001	207,038	161,380	149,088	73.0	30.2	103.2
2000	200,110	141,955	139,974	75.5	28.6	104.1
1999	208,396	142,417	144,652	75.9	28.3	104.2
1998	220,398	150,075	142,739	79.1	30.6	109.7

The company's assets have increased 44.0% since 1998. Liabilities increased 46.8% since 1998. Surplus increased 38.8% since 1998. The surplus decrease in 2000 was due to the company repaying a surplus note of $10 million. The net loss in 1998 was due to several severe storms. Gross Premiums Written has increased 24.9% since 1998. The combined ratio has steadily improved since the last examination and is currently 87.6%.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Reinsurance Pooling Agreement—It is recommended that the company review and revise its affiliated reinsurance pooling agreement with SSIC, to ensure that the agreement makes full and complete expression of the pooling relationship between the parties and to make complete provision for the rights and obligations of each participating party to the pooling relationship.

   Action—Compliance.

2. Accounts and Records—Affiliated Balances—It is recommended that the company allocate sufficient resources to address deficiencies in its intercompany accounting practices, and that the company establish satisfactory accounts and records for its accounting of affiliated party transactions, in conformity with the provisions of ch. 617.21 (1) (b), Wis. Stat.

   Action—Compliance.

3. Advance Premium Liability—It is recommended that the company report advance premium liability as an element of unearned premiums or as a separately identified liability in its statutory financial statements, in conformity with the NAIC Annual Statement Instructions—Property and Casualty.

   Action—Compliance.

4. Remittances and Items Not Allocated—It is recommended that the company report suspense and unidentified cash liability as a separately identified liability under the classification ‘Remittances and Items Not Allocated’ in its statutory financial statements, in conformity with the NAIC Annual Statement Instructions—Property and Casualty.

   Action—Compliance.

Summary of Current Examination Results

The examination verified the financial condition of the company as reported in its annual statement. No examination adjustments, reclassifications, or recommendations are being made.

VIII. CONCLUSION

The company had no recommendations as a result of this examination. It was determined during the current examination that the company complied with the prior four recommendations. The company has shown growth in assets, liabilities, surplus and premiums. The combined ratio has steadily improved since the last examination. The company's exceptional IRIS ratios were due to severe weather events in 1998 and investments in government securities and special revenue bonds which resulted in lower yields in addition to the generally lower interest rate environment in recent years. The company is investigating the dissolution of two affiliated shell companies.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations as determined by this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Andrew Fell	Examiner
Glen Navis	Examiner
Jean Suchomel	Examiner
Tim Vande Hey	Advanced Examiner
Randy Milquet	Advanced Examiner

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

During the examination the company stated they were investigating the possibility of dissolving two of the inactive shells within the holding company system in 2004. The two are SECURAL Capital, Inc., and Coordinated Insurance Services, LLC. The company notified this office prior to the report being issued that in fact they were being liquidated in November 2004.